

[REDACTED]

USSR Efforts to Circumvent the US Grain Embargo

I. General

ATTACHMENT
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We estimate that the USSR will replace no more than one half of the 17 million tons of embargoed grain they expected to import from the US prior to 1 October 1980. Since the 4 January US embargo we have confirmed Soviet purchases of 5.1 million tons; unconfirmed purchases amount to an additional 2.3 million tons. The added Soviets demand has created a two tiered world grain price structure with high premiums paid for foreign grain over US. [REDACTED]

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Argentina, unwilling to fully support the US embargo, immediately became the major source of grain to the Soviets. We estimate post embargo Soviet purchases of Argentine grain are already approaching 4.0 million tons (more than half is confirmed) out of a potential 4.5-5.0 million. The USSR also was able to quickly acquire smaller amounts from the EC, Brazil, East Europe and others. A major break came with Canada's unexpected announcement on 7 March of a 2.0 million ton sale, 1.5 of which will move by 1 October 1980. [REDACTED]

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The sale of Canada, an early supporter of the US embargo, and the high prices being paid for grain by the USSR may cause other exporters to reevaluate their export policies and take advantage of the windfall. Among those countries which have so far cooperated with the US trade sanctions, the EC and Australia would be the primary source of further new sales. [REDACTED]

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The deliveries will not involve a direct challenge to US policy, however, through transshipment or diversion of grain bought in the US. Hungary plans to provide the grain from its own crop and has indicated that it would compensate, if necessary, for exports to the USSR by importing barley from Western Europe. Overloaded rail transport facilities evidently represent the major obstacle to reaching the 800,000-ton target, although shipping part of the grain via the Danube could relieve some of the strain.

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In addition, [redacted] speculates that Hungary's recent bid for 250,000 tons of US soybean meal indicates that some may be transshipped to the USSR. However, reduced feed availability in Hungary because of last year's poor wheat harvest--roughly 2 million tons below 1978's crop--may also explain this extra soybean meal purchase.

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There has been a total absence of evidence pointing to Polish intent to assist the USSR evade the US grain embargo. Polish officials have claimed that grain shipments to the USSR would be, "impractical logistically and against Polish interests." Transshipment or reexport of grain from Gdansk, Gdynia, or Szczecin is limited by Poland's own increased import needs which severely cut surplus throughout capability. Transshipment via overland transportation is constrained by rail and truck availability.

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However, Poland--or any other East European country--conceivably could help the Soviets by unloading incoming supplies in Rotterdam and transshipping the grain to the USSR. In this way, Poland could bypass its own congested port facilities. If the Polish vessels are available, increased deliveries to Rotterdam, anticipated in the next several months, could help mask any shipments ultimately bound for the USSR. [redacted]

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Still, the Poles might be reluctant to participate in such a maneuver for fear of possible US economic retaliation. The Poles, plagued by food shortages, serious external financial problems, and a sharp drop in grain production in 1979, would be particularly loath to jeopardize grain purchases from the United States, which accounted for nearly 40 percent of Poland's total grain imports in recent years. Washington has financed a large share of these sales of favorable terms, through Commodity Credit Corporation credits. [redacted]

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[redacted] Bulgaria, Czechoslovakia, East Germany, and Romania may be taking steps to help the Soviets evade the US grain embargo:

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no greater than 100,000 tons. In early February we reported that Bulgaria had requested quotations for unspecified amounts of US corn on 22 January. Some grain traders believed Sofia would sell previously purchased corn to the USSR. [REDACTED]

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-- Koospol, the Czechoslovak Foreign Trade Organization, requested in early February that US grain deliveries totalling 70,000 tons be rerouted via Odessa because of congestion in the port of Hamburg. The Hamburg port situation is normal, however, and US grain destined for Czechoslovakia via Hamburg would not encounter unusual delays. Even though US grain deliveries to Czechoslovakia have often been trans-shipped from Odessa to cut transport costs, the questionable justification for the rerouting suggests that the grain could be diverted for Soviet use. In late February, the US denied permission for one of the two vessels involved to be rerouted to Odessa.

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-- Additionally, the President of Argentina's Grain Board has stated that Czechoslovakia would be buying up to 500,000 tons of corn this year, of which perhaps 300,000 tons could be destined for the USSR. [REDACTED]

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-- [redacted] the East German ambassador to Brasilia, in a blatant attempt to recruit [redacted] assistance for Moscow, told Brazilian officials that the US grain embargo presented the country with an excellent opportunity to improve its exports to the USSR. He opined that the Soviet Union would pay for agricultural imports with oil and indicated that Brazil could funnel such exports via increased sales to Soviet bloc countries. [redacted]

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-- [redacted] an East German state trading agency was believed to have been the primary conduit for a post-embargo sale, arranged by a West German firm, of West European soybean meal to the USSR. [redacted]

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-- [redacted] Romania may ship over 500,000 tons of grain, primarily corn, to the USSR by mid-summer. Most of the sales would involve swaps handled by private firms. Specifically, to fill an order with the USSR, a West European broker would substitute Romanian grain for previously contracted US grain, now unavailable because of the US embargo. It is unclear if the Romanian grain would have otherwise been exported. [redacted]

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We are likely to see most East European grain embargo circumvention activity take forms that do not involve a direct challenge to US policy. For example, Budapest apparently intends to provide Moscow with grain from its own crop and not to transship or reexport US grain. Such a method as increasing grain imports from the US rather than from suppliers not honoring the embargo, thus freeing up that grain for the USSR, would likely be preferred to the transshipment of US grain. Eastern Europe may believe actions that only obliquely assist in evading the embargo will be tolerated by the US and will not endanger its grain imports from the US, which accounted for about one-third of the region's total grain imports in recent years. [redacted]

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